

**BILL #** HB 2795

**SPONSOR:** Chabin

**PREPARED BY:** Leah Ruggieri; Eric Billings

**TITLE:** corporate income tax; REIT subsidiaries

**STATUS:** As Introduced

## FISCAL ANALYSIS

### Description

This bill would prohibit a corporation from reducing its state tax liability by dividends paid to it by another corporation it owns or controls if the payee corporation deducts those dividends in the computation of its federal taxable income. The bill would become effective after December 31, 2008.

### Estimated Impact

The bill would result in an increase in corporate taxes paid to the state, but the magnitude cannot be determined in advance.

The Department of Revenue (DOR) did not provide a fiscal impact estimate for the bill. According to DOR, they are unable to determine how many companies would be affected and cannot give an estimate of the fiscal impact.

The state of Wisconsin is considering similar legislation, which is projected to generate \$6 million to \$12 million in higher corporate tax collections.

### Analysis

The bill would increase the tax liability for corporations that currently take deductions to their Arizona gross income for dividend payments specified in the bill, which would increase their corporate tax payment to the state. The size of the increase, however, cannot be determined. DOR was unable to provide any information regarding the frequency and magnitude of deductions made by corporations for these types of dividend payments.

In order to determine a proxy for the estimated impact of this bill on Arizona, we examined Wisconsin, which is a state of similar size in terms of population and corporate revenue collections. Currently, the state of Wisconsin is considering a similar bill that would prohibit corporations from deducting dividends paid to them by a majority owned Real Estate Investment Trust (REIT) subsidiary. HB 2795 differs from this piece of legislation in that it does not explicitly target REITs in the bill language. Unlike the Wisconsin bill, HB 2795 could apply to dividends paid to a corporation from a non-real estate related firm in which the corporation holds a 50% or greater interest. The Wisconsin Legislative Fiscal Bureau estimates that its bill would have an estimated increase of between \$6.0 million and \$12.0 million on corporate and franchise revenues in FY 2008. The bureau also estimates that these collections will total \$810.0 million in FY 2008 with a corporate tax rate of 8%. JLBC is currently forecasting corporate revenues of \$811.7 million in FY 2008 with a corporate tax rate of 7%.

### Local Government Impact

The Urban Revenue Sharing formula distributes 15% of corporate income taxes collected 2 years prior to incorporated cities and towns. Because the bill would begin to increase corporate income tax collections in FY 2010, the corresponding distributions to local government would increase beginning in FY 2012.